



Oakville Hydro Electricity Distribution Inc.
2020 Distribution Rate Adjustment Application (EB-2019-0059)
Effective January 1, 2020

IN THE MATTER OF the Ontario Energy Board Act, 1998, being
Schedule B to the Energy Competition Act, 1998, S.O. 1998,
c.15;

AND IN THE MATTER OF an Application by Oakville Hydro
Electricity Distribution Inc. to the Ontario Energy Board for an
Order or Orders approving or fixing just and reasonable rates
and other service charges for the distribution of electricity as of
January 1, 2020.

(ICM Element)

Reply Submission on the Preliminary Question of whether it is
appropriate for Oakville Hydro to apply for ICM funding in this
proceeding.

Filed: October 24, 2019

INTRODUCTION

Oakville Hydro Electricity Distribution Inc. (“Oakville Hydro”) filed an application with the Ontario Energy Board (the “OEB”) on August 12, 2019 pursuant to Section 78 of the Ontario Energy Board Act, 1998 for the approval of its proposed adjustments to its distribution rates effective January 1, 2020 (the “Application”). The Application was filed under the OEB’s Price Cap Incentive Rate-Setting Option (“Price Cap IR”) and included a request to recover amounts related to four capital projects totaling \$7.1M through the OEB’s Incremental Capital Module (“ICM”). Oakville Hydro’s reply submission is in response to submissions by OEB staff and intervenors on the ICM element of the Application only.

The four projects that Oakville Hydro is seeking recovery for are system access projects that are at the discretion of the third parties making the access requests, over which Oakville Hydro has no control. As shown in Table 1, three of the four projects that Oakville Hydro is seeking recovery for are related to requests by the Town of Oakville (the “Town”) and the Region of Halton (the “Region”) for the relocation of Oakville Hydro’s distribution assets. This work is mandatory under the *Public Service Works on Highways Act*. The fourth project is for the replacement of feeders at Hydro One Network Inc.’s (Hydro One’s) Bronte transformer station to support Hydro One’s Transmission System Plan, filed on May 31, 2016 (EB-2016-0160).

Table 1
Incremental Capital Projects

ICM Projects	Amount (000's)
Relocation of Oakville Hydro's Distribution Assets:	
Town Road Widening - Speers Road	\$ 2,000
Region Road Widening - Trafalgar Road	2,200
Region Road Widening - William Halton Parkway	1,200
Sub-total	\$ 5,400
Bronte Feeder Replacement Project	1,700
Total Eligible ICM Projects	\$ 7,100

CURRENT ICM FRAMEWORK

1. Oakville Hydro relies on the OEB’s published rate setting policies as well as OEB correspondence and prior OEB decisions to operate its business within the context of a stable and predictable regulatory framework. Stability and predictability is important to facilitate the sustainability, operation and maintenance of a financially viable electricity industry.
2. The OEB’s policy for the funding of incremental capital is set out in the *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*, September 18, 2014 (“ACM

Report”)¹ and the subsequent *Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report (“Supplemental Report”)*² (collectively referred to as the **“ICM Policy”**). The OEB provided further policy direction for the availability of incremental capital modules following mergers, acquisitions, amalgamations and divestitures (**“MAADs”**) in the *Report of the Board Rate-Making Associated with Distributor Consolidation (“MAADs Policy”)*³ and in the *Handbook to Electricity Distributor and Transmitter Consolidations (“Handbook”)*.⁴

3. In the OEB’s letter dated May 13, 2019, granting Oakville Hydro’s deferral request, the OEB states explicitly that: *“If Oakville Hydro intends to seek a rate adjustment for 2020 rates, the OEB expects Oakville Hydro to adhere to the process for Price Cap Incentive Rate-setting applications for the 2020 rate year.”*
4. The ICM policy is explicitly and purposefully available to distributors applying under the Price Cap IR rate setting methodology.
5. Notably, the OEB’s existing policies expressly state that the ICM **is not available** to distributors applying under the Annual IR rate setting methodology. However, the OEB has already considered this issue and determined in its May 13, 2019 letter to Oakville Hydro that it would not apply the Annual IR rate setting methodology to Oakville Hydro at this time. The OEB explicitly states that: *“This is the second year that Oakville Hydro has sought a deferral to filing a cost of service rate application. If Oakville Hydro subsequently seeks a further deferral the OEB will consider whether the Annual Incentive Rate-setting Index method that was developed for distributors intending longer periods without rebasing should be applied.”*
6. In **none** of the OEB’s policy documents or its correspondence is it suggested that a distributor under Price Cap IR would be unable to apply for ICM funding. What the intervenors have asked for in this motion, filed on September 23, 2019, is a material and unprecedented change in the OEB’s existing policies as it relates to the funding of incremental capital for a distributor under Price Cap IR. They are asking that this change be made without any broader industry consultation, without input from industry associations or financial markets, in the context of this current ICM application. This, in Oakville Hydro’s view, is inappropriate.
7. In addition, in the MAADs Policy and the Handbook, the OEB allows for ICM funding even in circumstances where a distributor elects to defer rebasing by up-to 10 years. This approach is consistent with the OEB’s policy of ensuring its chosen rate setting methodology can effectively address some unexpected “lumpiness” in capital spending, and thereby avoid creating an incentive on distributors to defer and otherwise cluster capital spending in a cost of service test year.
8. Consistency in decision making is also important. Last year, in EB-2018-0021, the OEB approved Burlington Hydro’s ICM funding request for two out of three projects. This ICM approval occurred after

¹ EB-2014-0219: https://www.oeb.ca/oeb/Documents/EB-2014-0219/Board_ACM_ICM_Report_20140918.pdf.

² EB-2014-0219: https://www.oeb.ca/sites/default/files/uploads/Report_of_the_OEB_Capital_Funding_Suppl_20160122.pdf.

³ EB-2014-0138: https://www.oeb.ca/sites/default/files/uploads/Board_Report_MAADs_Ratemaking_20150326.pdf.

⁴ https://www.oeb.ca/oeb/Documents/Regulatory/OEB_Handbook_Consolidation.pdf

Burlington Hydro requested and the OEB approved Burlington Hydro's request to defer its 2019 cost of service application.

9. In this context, it would create considerable regulatory uncertainty if the OEB denied Oakville Hydro the right to have its ICM application heard in accordance with the OEB's rate setting policies. In addition, it would hamper Oakville Hydro's ability to manage unexpected lumpiness in its capital program in an optimal and smoothed manner.
10. Finally, allowing Oakville Hydro's ICM application to be heard as filed does not in any way eliminate the burden of proof that Oakville Hydro must still meet to demonstrate need, materiality and prudence of the proposed ICM projects. That would still be the subject of the OEB's decision making process.

BACKGROUND

The OEB issued a Notice of Hearing and letter of direction on August 29, 2019. In accordance with the OEB's letter of direction, Oakville Hydro served a copy of the Notice of Hearing, the application and the evidence, directly on intervenors of record in Oakville Hydro's cost of service proceeding EB-2013-0159, namely:

- Association of Major Power Consumers of Ontario ("AMPCO")
- Energy Probe Research Foundation ("EP")
- HVAC Coalition
- School Energy Coalition ("SEC")
- Vulnerable Energy Consumers Coalition ("VECC")

AMPCO, Energy Probe, SEC and VECC, the Consumers Council of Canada ("CCC") and Pollution Probe applied for intervenor status. The OEB denied Pollution Probe's request for intervenor status.

On September 17, 2019, the OEB issued Procedural Order No. 1, which set out the following dates:

- OEB staff and intervenors were required to request any relevant information through written interrogatories by October 3, 2019.
- Oakville Hydro was required to file written responses to those interrogatories by October 18, 2019.
- Any written submissions by OEB staff and intervenors were to be filed with the OEB by November 7, 2019.
- Oakville was to file its reply to those submissions by November 21, 2019.

On September 23, 2019, SEC, VECC, CCC, AMPCO, and EP (SEC, VECC, CCC, AMPCO and EP collectively referred to as the "Intervenors") filed a Notice of Motion (the "Motion") with the OEB seeking an order of the Board amending Procedural Order No. 1:

1. Bifurcating the proceeding between consideration of the ICM funding request and all other aspects of the Application; and
2. Seeking submissions from the Intervenors on whether it is appropriate for Oakville Hydro to seek ICM funding in its Application.

On September 27, 2019, the OEB issued Procedural Order No. 2 in which it determined that it wished to receive submissions from the intervenors and OEB staff on the question of whether it was appropriate for Oakville Hydro to seek ICM funding in its Application. OEB staff and intervenors were directed to file written submissions on this issue by October 10, 2019. Oakville Hydro was directed to file a written reply to those submissions by October 24, 2019.

OAKVILLE HYDRO'S REPLY SUBMISSION

Oakville Hydro received submissions from OEB staff and Intervenors on the following issues:

1. Should Oakville Hydro have known or ought to have known about the four projects for which it is requesting incremental capital funding and, if so, should it have disclosed its intention to file an ICM claim when it requested approval to defer its cost of service application for a second time (OEB staff and Intervenors);
2. Is it appropriate for Oakville Hydro's to seek approval for ICM funding, given its financial performance (OEB staff and SEC);
3. Should Oakville Hydro have been required to file a DSP in support of its request for incremental capital funding (OEB staff and Intervenors); and
4. Is it appropriate for Oakville Hydro to request approval for incremental capital funding for projects that will be in service in 2019 in its 2020 Application (CCC, EP and VECC)?

This is Oakville Hydro's reply to those submissions.

1. DISCLOSURE OF INTENT TO FILE AN ICM CLAIM

1.1 Introduction

In the Motion, the Intervenors expressed concern that Oakville Hydro did not disclose its intention to seek the approval for incremental capital funding at the time that it requested a second deferral of its cost of service application.

In its submission, OEB staff addressed this concern stating that, while it would have been helpful for Oakville Hydro to have disclosed its plans for the 2020 IRM year, it is not an explicit requirement for an applicant to disclose information related to a potential incremental capital funding request during an IRM year⁵.

OEB staff also submitted that Oakville Hydro's request for incremental capital funding is not unprecedented. The OEB approved Burlington Hydro's 2019 cost of service deferral request and on September 24, 2018,

⁵ OEB Staff submission, EB-2019-0059, page 4.

Burlington Hydro submitted a 2019 IRM application with an ICM funding request. Burlington Hydro's deferral request did not indicate that it intended to file an ICM request as part of the extended IRM term⁶.

In contrast, the Intervenor submitted that Oakville Hydro knew or ought to have known that it would be seeking approval for incremental capital funding at the time that it requested a second deferral of its cost of service application and that it should have advised the OEB of its intention at that time.

1.2 Reply Submission

Oakville Hydro agrees with OEB staff submission that there is no explicit requirement for an applicant to disclose information related to a potential incremental capital funding request during an IRM year.

Oakville Hydro submits that the OEB's approval of Burlington Hydro's ICM request establishes a precedent for the eligibility for an ICM in an extended Price Cap IR year. Burlington last rebased in 2014 (EB-2013-0115) and received approval for ICM treatment for 2018 and 2019 capital expenditures in the first year of its extended Price Cap IR term.

As staff noted, Burlington Hydro submitted a 2019 IRM application with an ICM funding request. Burlington Hydro's deferral request did not indicate that it intended to file an ICM request as part of the extended IRM term.

Oakville Hydro's last rebasing was also in 2014. Oakville Hydro submits that its request for incremental capital funding for 2019 projects in its 2020 Application is substantively the same as Burlington Hydro's request. Oakville Hydro is also seeking approval for incremental capital funding for 2019 projects.

Oakville Hydro also notes that, in its Decision and Order on Burlington Hydro's ICM, the OEB acknowledged that Burlington Hydro had applied to defer rebasing for a second year and on this basis, the OEB approved a full year of depreciation.⁷ Oakville Hydro suggests that, in doing this, the OEB has also set a precedent for distributors that have requested an ICM during an extended Price Cap IR term who wish to request subsequent deferrals.

With respect to the question of whether Oakville Hydro knew that it intended to request incremental capital funding when it requested the deferral of its cost of service application, Oakville Hydro offers the following submissions:

1.2.1 Relocation of Distribution Assets for Town and Region Road Widening Projects

Oakville Hydro acknowledges that it was aware of the proposed road widening projects at the time that it requested approval for the deferral of its cost of service application. However, in addition to there being no explicit requirement or practical precedent for deferral request letters to include information about potential ICM projects, Oakville Hydro submits that the uncertainty as to the timing of the proposed road widening

⁶ OEB Staff submission, EB-2019-0059, page 4.

⁷ Decision and Rate Order, EB-2018-0021, Page 23.

projects was such that Oakville Hydro was not in a position to ascertain whether incremental capital funding would be required for the reasons set out below.

- Relocation of Distribution Assets for Region Road Widening Projects - \$3.4M

The Region identified the William Halton Parkway project in 2013. At that time, work was scheduled to begin in 2015. However, due to changing priorities, the Region deferred the project until 2018. In the fall of 2018, the project was deferred again.

The Region identified the Trafalgar project in 2016. At that time, the Region had asked Oakville Hydro to study the feasibility of converting the overhead distribution assets to underground assets. In 2017, the Region decided to proceed with an overhead conversion due to the costs of an underground conversion and scheduled the project to proceed in 2018. However, there were delays due to the need for the Region to acquire additional property easements and the project was deferred again.

- Relocation of Distribution Assets for Town Road Widening Project - \$2M

The Town identified the Speers Road project in 2016. At that time, it was tentatively scheduled to begin in the fall of 2017. However, there were significant changes to the civil road design resulting in changes to Oakville Hydro's relocation design and the project was deferred to 2018. In 2018, the project was deferred again due to shortages of available hydro poles caused by fires in British Columbia.

In summary, each of these projects was identified well in advance of their actual construction. However, these projects had been repeatedly deferred and, at the time that Oakville Hydro requested approval for the deferral of its cost of service application, it was uncertain as to whether the Town and the Region would proceed with construction or defer again. In fact, the Region had also planned to complete work on the widening of Dundas Street in 2019 but this work has been deferred.

Later in 2019, it became clear that the Town and Region intended to complete the roadwork on schedule. On May 19, 2019, Oakville Hydro responded to the OEB's Survey for 2020 Price Cap IR and Annual IR Index Rate Applications. In that survey, Oakville Hydro advised the OEB of its intention to file a request for ICM funding in its 2020 IRM application.

1.2.2 Bronte Feeder Replacement Project at Hydro One's Bronte Transformer Station 1.7M

Oakville Hydro was aware of the Bronte Feeder Replacement project at the time that it requested approval for the deferral of its cost of service application. However, Oakville Hydro submits that the uncertainty as to the timing of the proposed road widening projects was such that Oakville Hydro was not in a position to ascertain whether incremental capital funding would be required.

Had the road widening projects been deferred, and Oakville Hydro had only been required to invest \$1.7M in the Bronte feeder replacement project, its maximum incremental eligible capital for the ICM would have been \$676k. This equates to an incremental revenue requirement of \$62k. This amount is less than Oakville Hydro's materiality level of approximately \$200k and therefore Oakville Hydro would likely not have sought approval for incremental capital funding.

**Table 2 – Incremental Revenue Requirement
 Bronte Feeder Replacement Project**

	Bronte Feeder Replacement Project (000's)	Maximum Eligible ICM Amount (000's)
Incremental Capital	\$ 1,700	\$ 676
Less: Amortization (half-year rule)	25	10
Incremental Capital	\$ 1,676	\$ 667
Return On Rate Base	\$ 108	\$ 43
Amortization Expense	49	19
Incremental PILs (Grossed Up)	-	-
Total Revenue Requirement	\$ 157	\$ 62

1.3 Oakville Hydro's Position

Oakville Hydro submits that, at the time that it requested approval for the deferral of its cost of service application, it did not have sufficient information to advise the OEB that it intended to file a request for ICM funding. Depending on the ability of the Town and Region to execute their road widening projects, Oakville Hydro's need for capital funding could have been anywhere between the \$1.7M for the Bronte feeder replacement project and \$7.8M for the Bronte feeder replacement project and the five road widening projects that were proposed.

Table 3 – Eligible ICM Projects

ICM Projects	Amount (000's)
Relocation of Oakville Hydro's Distribution Assets:	
Town Road Widening - Speers Road	\$ 2,000
Region Road Widening - Trafalgar Road	2,200
Region Road Widening - William Halton Parkway	1,200
Region Road Widening - Dundas Street (deferred)	700
Sub-total	\$ 6,100
Bronte Feeder Replacement Project	1,700
Total Eligible ICM Projects	\$ 7,800

In summary, as OEB staff has submitted, there is no explicit requirement for an applicant to disclose information related to a potential incremental capital funding request during an IRM year nor is there any practical precedent of this being done by other distributors (Burlington Hydro's deferral request also did not mention any anticipated ICM projects). However, Oakville Hydro did not have had enough certainty at the time that it requested the deferral of its cost of service application to inform the OEB that it intended to file a request for ICM funding.

2. FINANCIAL PERFORMANCE

2.1 Introduction

OEB staff and SEC made submissions on whether it was appropriate for Oakville Hydro to seek approval for incremental capital funding based on its financial performance. Both OEB staff and SEC made submissions in regards to Oakville Hydro's regulated rate of return. SEC also made submissions on Oakville Hydro's working capital allowance.

OEB staff noted that the Filing Requirements for Electricity Distribution Rate Applications (the "Filing Requirements") state that the ICM is not available for incremental funding if a distributor's regulated rate of return exceeds 300 basis points above the deemed return on equity ("ROE") embedded in the distributors rates.⁸ OEB staff included a table in its submission illustrating that Oakville Hydro's regulated rate of return had not exceeded 300 basis points for the period 2014 to 2018. Oakville Hydro has provided a similar table below to aid the reader.

Table 4
Oakville Hydro's Regulated Rate of Return

	Rebasing Year - 2014	2015	2016	2017	2018
Deemed ROE	936	936	936	936	936
Achieved ROE	994	935	1071	969	1065
Difference	+58	-1	+135	+033	+129

OEB staff submitted that, under the circumstances, the OEB should proceed to hear Oakville Hydro's request for capital funding.

SEC submitted that if Oakville Hydro had filed an application on a cost of service basis, the revenue requirement for the four ICM projects would not be incremental based on the changes in working capital and Oakville Hydro's ROE.

2.2 Reply Submission

2.2.1 *Regulated Rate of Return*

Oakville Hydro agrees with OEB staff's submission that, since Oakville Hydro's regulated ROE does not exceed 300 basis points above its deemed ROE, it is eligible for incremental capital funding under an ICM. Oakville Hydro's ROE has never exceeded 300 basis points above its deemed ROE in any year since 2014. And in 2015, Oakville Hydro actually earned less than the deemed ROE.

In making its submission, SEC relied on the increase in Oakville Hydro's net income, as published in the 2018 Electricity Distributor Yearbook (the "2018 Yearbook") since Oakville Hydro's 2018 ROE is not on the record

⁸ OEB staff submission, EB-2019-0059, Page 5.

in this proceeding. SEC submitted that Oakville Hydro's net income had increased by 5.2% compounded annual growth since its last rebasing while its distribution revenue increased by 2.8%.

However, SEC would not have known that Oakville Hydro's 2018 net income, as published in the 2018 Yearbook, includes the impact of unusual/non-recurring prior period adjustments totaling \$1.3M for taxes, amortization and lost revenue as well as non-regulated revenue related to Conservation and Demand Management ("CDM") mid-term incentives. Based on the normalized net income for 2018, the compound growth rate for Oakville Hydro's net income is 2.0% for the five-year period 2014 to 2018 while its compound growth rate for revenue is 3.5% for the same period as shown in Table 5 and 6.

Table 5
Compound Annual Growth Rate – Net Income

2014 OEB Approved Net Income	\$6.9M
2018 Normalized Net Income	\$7.6M
Compound Annual Growth Rate	2.0%

Table 6
Compound Annual Growth Rate – Distribution Revenue

2014 OEB Approved Distribution Revenue	\$35.6M
2018 Distribution Revenue	\$40.9M
Compound Annual Growth Rate	3.5%

2.2.2 Working Capital Allowance

SEC submitted that, if Oakville Hydro were to file a cost of service application, the revenue requirement for the four ICM projects would not be incremental. In making this assertion, SEC cited the change in working capital allowance.

Oakville Hydro notes that the same would be true for any ICM application that the OEB approved for distributors whose working capital allowance in rates is higher than the deemed rate of 7.5%, including Burlington Hydro's 2019 ICM application (EB-2018-0021) and Enersource Hydro Mississauga Inc.'s ("Enersource's") 2016 IRM application (EB-2015-0065). Burlington Hydro and Enersource were not questioned on their working capital allowance in those proceedings.

Notwithstanding that, Oakville Hydro submits that its distribution revenue is already being reduced by an amount that is equal to the difference between its approved working capital allowance and its estimated working capital allowance and that this amount is being recorded in a variance account. In its 2017 IRM application (EB-2016-0097), Oakville Hydro requested approval to establish a deferral account to record the net incremental costs associated with the transition to monthly billing. In its Decision and Rate Order, the OEB

approved Oakville Hydro's request noting that it had approved a similar account in Toronto Hydro Electric System's 2015 Custom IR Application⁹.

Since Oakville Hydro is already recording the incremental costs directly attributable to the transition to monthly billing and the offsetting benefits, including reductions in bad expenses and lower working capital, in a deferral account, the change in working capital would not offset the increase in revenue requirement associated with the four ICM projects.

Oakville Hydro also submits that it is inappropriate to suggest that a change in working capital be used in isolation to assess whether Oakville Hydro's rates support the requested incremental capital funding. Oakville Hydro notes that its 2014 revenue requirement does not include a component for Payments In Lieu of taxes ("PILs") and that its 2018 current taxes were \$800k which, when grossed up, equates to an increase in revenue requirement of \$1.1M.

2.3 Oakville Hydro's Position

For these reasons, Oakville Hydro submits that SEC's assertion that, if Oakville Hydro had filed an application on a cost of service basis, the revenue requirement for the four ICM projects would not be incremental is not based on a fulsome analysis.

Oakville Hydro reiterates its submission that a distributor should be permitted to seek approval for incremental capital funding if its regulated rate of return does not exceed its deemed rate of return by more than 300 basis points.

3. DISTRIBUTION SYSTEM PLAN

3.1 Introduction

In the Motion, Intervenor expressed concern that Oakville Hydro had not filed a current Distribution System Plan ("DSP") with the OEB. OEB staff and the Intervenor made submissions on whether the OEB should consider Oakville Hydro's request for incremental capital funding in the absence of a current DSP.

In its submission, OEB staff noted that, in accordance with the *Filing Requirements for Electricity Distribution Rate Applications, Chapter 5 – Consolidated Distribution System Plan*, distributors are required to file a DSP when filing a cost of service application. A distributor that has requested deferral of its rebasing application and received approval may be notified in the approval letter as to the requirement for and timing of a DSP filing¹⁰.

OEB staff also noted that the approval letters that Oakville Hydro received did not require the filing of a DSP and that Burlington Hydro, which had received approval for incremental capital funding in an extended IRM period was not required to file a DSP.¹¹

⁹ Decision and Rate Order, EB-2016-0097, Page 12.

¹⁰ OEB staff submission, EB-2019-0059, page 15.

¹¹ OEB staff submission, EB-2019-0059, page 4.

OEB staff noted that, all of the projects that Oakville Hydro is seeking approval for incremental capital funding are system access projects initiated by external third parties, which can arise at any time and are not at the discretion of the distributor and, as such, may not have been as informative as suggested in the Motion.¹²

In contrast, the Intervenor submitted that it is difficult for the OEB to assess whether incremental capital is incremental to a prudent capital plan without the base capital plan and that, had the OEB known that Oakville Hydro intended to seek incremental capital funding, it may have required that a DSP be filed along with the ICM request.

3.2 Reply Submission

Oakville Hydro agrees with OEB staff's submission that distributors that have requested deferral of their rebasing application and received approval may be notified in the approval letter as to the requirement for and timing of a DSP filing. Oakville Hydro's approval letter, dated May 13, 2019, did not require it to file a DSP.

Oakville Hydro was also aware that Burlington Hydro had filed a request for incremental capital funding in its 2018 rate application and that it was not required to file a DSP.

With respect to the question of whether a DSP would assist the OEB in determining whether the system access projects for which Oakville Hydro has requested incremental capital funding are incremental to its capital needs, Oakville Hydro offers the following submissions:

- Oakville Hydro submits that, since the projects that it is seeking approval for incremental capital funding are system access projects that are not at Oakville Hydro's discretion, they may not have been reflected in a 2019 to 2023 DSP.
- As discussed previously, it is extremely difficult to predict the timing, nature, and scope of these third party requests. Oakville Hydro did not have had sufficient knowledge about these projects when it filed its request to defer its cost of service application. Therefore, it is difficult to imagine how it would have been possible to accurately reflect the forecasted spending on these projects in a 2019 to 2023 DSP.
- Oakville Hydro also submits that a DSP is not required to determine whether these system access projects are incremental to its capital needs. These projects were not undertaken to renew or expand Oakville Hydro's distribution system but rather to move its distribution assets to accommodate the needs of the third parties making the system access requests.
- Oakville Hydro notes that its 2014 approved distribution rates include \$400k for road widening projects and that its average actual annual expenditures for the period 2014 to 2018 on road widening projects was \$315k. There was no amount included in its 2014 rates for moving feeders at Hydro One owned municipal stations. Therefore, Oakville Hydro's request for incremental capital funding of \$7.1M for these system access projects is clearly incremental to Oakville Hydro's capital needs and material to its operations.

¹² IBID, page 5.

This view is consistent with the OEB's Decision and Order in Alectra Utilities Corporation's ("Alectra's") 2018 rate application. The OEB approved Alectra's request for incremental capital funding for its York Region Rapid Transit project, stating that, while a utility the size of Alectra Utilities is expected to undertake a certain amount of relocations each year, this project is clearly very material to its operations.¹³

3.3 Oakville Hydro's Position

Oakville Hydro submits that the ICM mechanism is well suited to requests for incremental capital funding for third party system access projects, which cannot always be planned in cost of service application due to changing third party priorities and the inability of a distributor to control the timing and pacing of the projects.

4. OUT OF PERIOD EXPENSES

4.1 Introduction

CCC, EP and VECC made submissions on this issue of whether it was appropriate for Oakville Hydro to request approval for incremental capital projects that may be in service in 2019 in its 2020 Application. OEB staff and the other intervenors made no submissions on this issue.

4.2 Reply Submission

Oakville Hydro submits that it is appropriate to request approval for incremental capital projects that were in service during its extended IRM period for the reasons set out below.

In its Decision and Rate Order in Rideau St. Lawrence Distribution Inc.'s 2018 IRM application, the OEB agreed that the typical approach to the ICM is for incremental funding to start in the year that the asset is planned to go into service. The OEB's models have been designed for this typical situation. However, the OEB noted that the ICM policy states that the Advanced Capital Module ("ACM") and the ICM are incremental funding for capital projects to go into service during the IRM term. The OEB went on to say that, it considers any period of time between cost of service applications to be part of the term.¹⁴

Consistent with the Rideau St. Lawrence Decision, the OEB approved Burlington Hydro's request for incremental capital funding for CCRA payments made to Hydro One for additional breakers at the Tremaine TS in 2018 and 2019.

4.3 Oakville Hydro's Position

For these reasons, Oakville Hydro submits that it is appropriate for it to seek approval for incremental capital funding related to projects that will be in service in 2019.

¹³ Decision and Order, EB-2017-0024, page 34-35.

¹⁴ Decision and Rate Order, EB-2017-0265, page 5.

CONCLUSION

In conclusion, Oakville Hydro submits that it has met the eligibility conditions for an ICM claim and respectfully requests that the OEB proceed to hear its request for incremental capital funding.

All of which is respectfully submitted.

Original signed by

Karen Marner
Chief Financial Officer